

Making Effective Use of Managed Competition

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Executive Summary

Local governments are beginning to use a managed competition model to reduce the cost and improve the quality of services. Managed competition calls for carefully comparing the costs and benefits of contracting with private business or another government entity against the costs and benefits of providing the service in-house. In contrast to privatization, it does not assume that private business can always do a better job of providing services. The experience of other cities, such as Indianapolis, Phoenix, and Philadelphia, suggests that managed competition can reduce costs and improve services. In addition, managed competition has found strong support in the report of Vice-President Gore's National Performance Review and in other recent writings about improving the efficiency of government.

In Seattle, although City departments are comparing some in-house costs to outside costs, they could be using managed competition more extensively. Of the 67 services which we identified as good candidates for managed competition, departments were only reviewing in-house to outside costs for 23 services. Addendum A shows the services we reviewed, whether the City provides them in-house or contracts them out, and whether departments have gathered price comparison information on them.

Based on the experiences of other cities, the following elements may help Seattle successfully implement a managed competition program:

- procedures for ensuring a thorough analysis of the relevant costs and benefits of retaining or contracting out a particular service, including a standardized cost comparison methodology and criteria for when to obtain formal bids;
- appropriate internal controls over the managed competition process, including third party review of cost comparisons and a comprehensive contract monitoring system;
- consideration of legal requirements early in the managed-competition process;
- awareness of the importance of factoring non-financial considerations into the decision-making process, and some general guidance for doing so; and
- labor-management cooperation, particularly in identifying new and innovative ways of performing government services and preparing in-house bids.

As City of Seattle departments move in the direction of using managed competition, the City Council and Mayor may want to consider providing policy guidance in the areas listed above.

Purpose

Local governments are beginning to use a “managed competition” model to reduce the cost and improve the quality of services. Managed competition calls for carefully comparing the costs and benefits of contracting with private business or another government entity against the costs and benefits of providing the service directly. It may lead to contracting out of services or to improved in-house efficiency and makes no assumption that either the local government or private business automatically does a better job of providing services. Because of the interest which the City has expressed in managed competition, we undertook this study to:

- determine to what extent City of Seattle departments are using managed competition to increase their efficiency, and
- identify the methods and procedures needed to ensure that managed-competition decisions truly produce more efficient City services.

Background

In the 1980s many state and local governments assumed that private business could provide various governmental services cheaper and better and rushed to privatize these services. At present, state and local governments in the United States contract for over \$100 billion in services every year. Interest in contracting out services continues to increase, but in the 1990s, governments appear less ready to assume that private business can always do a better job of providing services. Instead, governments are now turning to a more sophisticated managed-competition model, under which both private companies and governmental departments have an equal opportunity to prove that they can provide a particular service better and cheaper. Managed competition may range from obtaining formal or informal bids from public and private providers for possible privatization to simply collecting industry-wide or local-provider cost data as a benchmark against which in-house providers may evaluate their efficiency. The competition may include other governmental entities, as well as private

businesses. The services which governments select for managed competition have tended to be ancillary services (for example, custodial or fleet maintenance), rather than core services such as public safety and fire.

The experience of other cities suggests that managed competition for providing a government service can reduce costs. For example,

- Indianapolis, Indiana, has produced \$28 million in annual cost savings by identifying over 150 opportunities to use managed competition. In the half-dozen instances in which city units have prevailed over private firms in the bidding process, Indianapolis has saved an average of 25 percent.
- Phoenix, Arizona, estimates that managed competition has saved the city over \$25 million, with only a portion coming through contracting out of services. Phoenix has remained committed to ensuring that public employees have a fair chance at winning contracts, and municipal workers have won 18 out of the 51 contracts put out to bid.
- Philadelphia, Pennsylvania, estimates that applying managed competition to 13 city services is saving the City \$16.4 million annually.

Even when managed competition does not lead to privatization, gathering data about private-sector costs may provide lower-cost benchmarks for governmental departments to strive for in providing services.

Managed competition has found strong support in recent writings about making government more efficient. The book, Reinventing Government,¹ the report of Vice-President Gore's National Performance Review,² and management expert Peter Drucker³ have all advocated managed competition as a means of containing the costs of government services and improving their quality. In 1993,

¹ Osborne, David and Ted Gaebler. Reinventing Government (1992, Addison-Wesley Publishing Company, Reading, MA)

² Vice President Al Gore. From Red Tape to Results--Creating a Government That Works Better and Costs Less: The Report of the National Performance Review (1993, Plume, New York, NY)

³ Drucker, Peter. Innovation and Entrepreneurship (1985, Harper & Row, New York, NY)

reports from the National League of Cities and the International City/County Management Association also endorsed the concept of managed competition and described the model of successful managed-competition principles and practices which is emerging.

Scope And Methodology

In performing this study, we interviewed various City personnel, including staff from Department of Administrative Services, the Law Department, the Office of Management and Planning, the Solid Waste Utility, and the Engineering Department. To identify lessons learned elsewhere, we also obtained comments or documents from big-city governments (Cincinnati, Phoenix), state governments (Colorado State Auditor's Office, New York State Comptroller's Office), federal offices (U.S. General Accounting Office, U.S. Office of Management and Planning) and such organizations as the International City/County Management Association, National League of Cities, and the Government Finance Officers Association.

We recognize that the values of other political entities and organizations may differ considerably from those of Seattle. Seattle's elected officials will need to consider the lessons learned elsewhere in light of the City's own special values.

We performed our work for this review between July and November 1994 in accordance with generally accepted government auditing standards. Although we determined the extent to which City departments are attempting to use managed competition, we did not attempt to evaluate how well City departments are performing activities related to managed competition. This would be a next logical step for the City to undertake.

We requested comments on the report from the Departments of: Administrative Services, Engineering, Law, Parks, Personnel, Police, and Water and from City Light, the Library, the Legislative Department's Central Staff, the Office of Management and Planning, and the Mayor's Office. We have incorporated these comments in the report.

City Of Seattle Departments Vary In Their Use Of Managed Competition

City departments have already applied at least a rudimentary form of managed competition to many City services, but the extent to which the departments use managed competition varies from department to department, and even within departments. The Department of Administrative Services has been active in using managed competition to improve its efficiency, privatizing some services and providing other services only with City personnel. Other departments have made occasional use of managed competition, shown interest in making greater use of managed competition in the future, or given only limited consideration to managed competition.

Departments Comparing In-House Costs to Outside Costs For Some Services

We reviewed 67 City services in 12 departments. All the services had been identified by either the National League of Cities, the International City/County Management Association, or the Washington State Municipal Research Services Center as services often contracted out or as good candidates for managed competition.

For only 23 of these 67 services did departments compare the costs of providing the service in-house to contracting it out. The 23 cost comparisons had the following outcomes:

- In 10 cases, departments continued to provide a service in-house. For example, after performing a cost comparison, the Parks Department decided to continue using in-house staff for greens maintenance at its golf courses. DAS has three services which it provides completely with in-house staff but regularly compares the cost to the private sector: mail messenger, painting, and parking lot operations.
- In 5 cases, departments chose to use outside contractors. For example, the Drainage and Waste Water Utility's major sewer-repair work, currently provided in-house, will be contracted out in 1995. Also, payroll processing, which is currently provided in-house will be contracted

out in 1995.

- In 8 cases, departments now provide the services both by in-house staff and through outside contractors. For example, the Department of Administrative Services provides building management services for some of its buildings but contracts out this service in other buildings. A number of other DAS services are also provided by both in-house and contracted staff including architects, custodial, fleet maintenance, plumbing, printing, and space planners.

For 44 of the services we reviewed, departments have not directly compared in-house to outside costs. However, for 19 of these 44 services, the departments are using a more limited type of managed competition. For example:

- 8 services are provided by a combination of in-house staff and outside contractors. For instance, Finance, Law, City Light, and Municipal Court all handle bill collections in house initially and then after a certain time period send unpaid accounts to a private collection agency. Another example is Personnel, which will conduct local executive searches with in-house staff but will contract-out for national searches.
- Departments provide 11 services through outside contractors but have not formally evaluated the cost of contracting out against the costs of providing the service in-house. For instance, Solid Waste has a number of services it has historically contracted for and it has not prepared estimates regarding the costs of providing the service with in-house staff.
- Departments have not compared the cost of providing services through contracts for 25 services which are provided with in-house staff.

Addendum A shows the services we reviewed, how the departments provide the services, and whether departments have gathered price-comparison information.

DAS Using Managed Competition

The Department of Administrative Services has been using managed competition to improve its efficiency in providing services. Since 1989, it has regularly prepared and published comparative price data for various services related to the City's vehicles, communications, data processing and facilities. Within the Department of Administrative Services, the Facilities Division, which maintains and operates the City's buildings, provides a good example of a City division trying to identify the best way to provide each of the services for which it is responsible. Depending on the service, the Division provides the entire service (parking, mail messenger), contracts out the service completely (asbestos removal, pest control, security), or provides the service at some locations but contracts it out in others (custodial, painting, plumbing, space planning, and window cleaning). The Division uses a managed-competition model to review its service approach periodically. For instance, the Division recently reviewed its contracting out of building-management services for the Dexter Horton, Alaska and Arctic Buildings, using a consultant to prepare the comparative cost analysis. The Division also used in-house and private sector bids to compare the relative costs of moving services. Although we identified instances where the Department of Administrative Services is using managed competition, we did not attempt to evaluate its processes or determine the appropriateness of its decisions.

such as comparing in-house bids to outside bids. According to a DAS official, DAS could benefit from using more managed competition.

Utilities Moving Towards Competition

The Engineering Department has made some use of the managed-competition model in partially contracting out some of its transportation functions (for example, street construction and maintenance, and traffic signal installation) and in fully contracting out many services within the Solid Waste Division. The Solid Waste Division provides a recent small-scale example of the value of the managed-

competition model. The Division formerly contracted with the Department of Housing and Human Services for backyard pickup of yard waste for 600 customers who were physically unable to move their yard waste out to the curb. Faced with a proposed increase in the \$70,000 annual cost and with customer complaints about the service, the Division requested private-sector bids. Although both of the bids the Division received came in somewhat under \$70,000, the Division was able to reduce the cost to \$30,000 by renegotiating its contract for residential garbage pick-up to include backyard yard-waste pick up.

The Engineering Department's Drainage and Waste Water Utility has also begun applying managed competition. Facing a significant increase in sewer repairs in 1995, the Utility compared the costs of having its own staff do the repairs with the costs of contracting out the repairs. As a result, in 1995 the Utility will contract out major repair work, with its own staff performing sewer maintenance and smaller-scale repairs.

The Water Department has already done some price comparisons with the private sector to benchmark its services and assess its efficiency. The Department has prepared a list of services worth considering for managed competition but plans to use the next two years to make its own operations as efficient as possible before moving to managed competition. The Department is already starting to apply the managed-competition model to new functions such as the new Tolt River water-treatment facility.

***Some Departments
Perceive Constraints
in Making Full Use of
Managed Competition***

Some departments, such as the Parks Department, face constraints in making full use of managed competition. Currently, the Parks Department contracts out a number of the public services it provides. For example, it contracts out food concessions at the zoo and aquarium, the operation of the Seacrest Marina, and the operation of the Bathhouse Theater, to name a few. However, a Parks Department official told us that the Department has not pursued managed competition in other areas, such as the management and operation of rowing and sailing facilities, because department officials perceive that the public response would be negative. In addition, Parks Department officials have not conducted price comparisons for their

landscape and park maintenance functions because of perceived labor constraints. Other city officials disagree with Parks Department views regarding constraints.

**Experience Of
Other Cities
Suggests Need For
Careful Analysis
And Appropriate
Procedures If
Managed
Competition Is To
Succeed**

Cities and states actively pursuing managed competition include Phoenix, Indianapolis, Cincinnati, Philadelphia, Massachusetts, Colorado, Texas, Arizona, and Florida. In reviewing the experiences of these cities and states with managed competition, we found that successful programs include formal bids, very careful analysis of costs, and procedures to ensure fairness.

***Initial Screening
Process Can Be
Useful***

Initial screening helps managers identify which services are good candidates for managed competition. At this early stage in the managed-competition process, industry data or local pricing may be all managers need to identify services with potential for improving in-house efficiency or for contracting out. At this time, comparing less formal cost data to in-house costs may reveal that in-house service delivery is clearly the preferred method. However, if early analyses indicate that cost savings may result from contracting out, managers should take a more comprehensive look at whether the service is a good candidate for managed competition.

To ensure that they are considering all the factors relevant to each particular managed-competition decision, state and local officials sometimes use formal decision-making models to help them identify likely candidates. A number of jurisdictions use a model which the Colorado State Auditor's Office developed. This model assesses the technical feasibility of contracting out a service by looking at several key factors: market strength, political resistance, service quality, impact on public employees, legal barriers, risk, resources, cost efficiency, and control. Addendum B provides more information on the Colorado model. While we are not advocating that the City adopt this particular model, we do recommend that the City adopt or develop some form of citywide guidelines to assist department

managers in identifying services that are likely candidates for managed competition. Having such guidelines in place can help ensure that managers consider all appropriate factors in deciding whether to pursue managed competition. As mentioned above, we recognize that the values of other political entities and organizations may differ considerably from those of Seattle. Seattle's elected officials will need to consider the lessons learned elsewhere in light of the City's own special values.

As part of the initial screening process, managers must weight potential legal and labor-force considerations. Legal ramifications may include: unique state barriers to contracting out civil service work; state and local diversity standards; provisions of existing contracts and collective bargaining agreements; and statutory, municipal, and labor procedural requirements. Managers should consult with the Personnel Department's Labor Relations Unit and the Law Department early on regarding any significant managed competition which is under consideration.

Formal Bids Provide the Most Reliable Information

Once informal cost comparisons and an initial screening process have identified a service as a likely candidate for managed competition, managers should consider implementing a formal bid process. Formal bidding in managed competition treats all participants--both outside and in-house bidders--equally. A formal bidding process requires in-house bidders to submit firm bids or proposals, similar to any other prospective bidder. Cities that have used a formal bidding process have found that it: 1) provides better cost information; 2) provides better qualitative data on how the work will be structured and performed; 3) sends a strong message to prospective bidders that the competition is truly open and that the best qualified candidate will be chosen to provide the services; 4) motivates the in-house provider to find new, more efficient ways of providing a service; and 5) firmly commits the in-house provider to producing the service at a set cost. On the downside, due to the time and staff effort required to prepare a bid or proposal, formal bidding can be a time-consuming and costly process. These costs should be weighed against the potential cost savings that could accrue from undergoing a formal bid process. In addition, a formal

bid process only provides good cost information to the extent that the service to be performed is adequately described in the bid specifications, and a sufficient number of service providers are available to form a competitive market.

***Careful Analysis Of
Costs Important***

The cost analysis is often the decisive factor in managed competition decisions. However, preparing a cost analysis which accurately and fairly reflects the costs of using various service delivery alternatives has proven difficult. The International City/County Management Association and the National League of Cities have found that the real costs of both in-house service delivery and contracting-out have generally suffered from underestimating. One major national study, in fact, suggests that the cost of in-house service delivery is frequently underestimated by as much as 30 percent. Such underestimating may result from serious inadequacies in the way many government accounting systems -- the City of Seattle's among them -- maintain cost data. Implementing managed competition may, therefore, require upgrading of the City's cost accounting system. Decision makers also regularly underestimate the costs of contracting out service delivery by failing to consider the increased cost of contract administration and monitoring; these cost increases often run between 10 and 20 percent of the contract costs.

Careful analysis is needed to determine how total City costs will change under each alternative when making managed competition decisions. In the short term, when a service is contracted out, many costs associated with that service do not cease. Although the City may reduce direct personnel or equipment costs, other costs may not change at all. Overhead is a good example of a significant cost which may not change. Overhead is made up of the expenses of various City departments (for example, personnel, payroll) which support not only the service being contracted out but many other services and functions as well. Overhead is somewhat artificially assigned to each of the services/functions it supports, often proportionally to their personnel costs or total direct costs. When a service is contracted out, the overhead expenses may not change at all, in the short term at least, and will then be spread over the reduced number of

in-house services. Similarly, contracting out a service creates additional contract administration and monitoring, but the number of staff who perform those functions may not necessarily increase in the short term. Cost comparisons performed to determine immediate cost savings should include only the direct and indirect costs which will actually change in the short term.

In the long term, although overhead and indirect costs may not change immediately, the support functions generating these costs (such as personnel and accounting) can reasonably be expected to decrease in size and expense over time. Such decreases generally occur rather quickly in the private sector. Failure to consider full costs of alternatives may lead decision makers to ignore significant longer-term savings, but using full costs implies the commitment to reduce overhead expenses appropriately. In addition, if the private sector is to have a fair chance of competing, decision makers may need to consider the full costs of alternatives and the implications for longer-term savings. In the long term, basing in-house bids and contract proposals on their full costs (including overhead and indirect costs) comes closer to treating both in-house and private sector providers equally.

Appropriate Internal Controls Must Be In Place

The success of managed competition will benefit from the presence of appropriate internal controls over the process to help ensure that fairness prevails, that all parties accept the results and that the expected savings actually materialize. Included in these controls are prequalifying of bidders, providing third-party review, writing comprehensive contract specifications that include measurable performance indicators, monitoring service quality, and controlling cost increases.

Prequalifying Bidders

In many cases, allowing outside bids only from firms which have satisfactorily demonstrated their ability to perform the proposed work helps keep the competition fair. Otherwise the risk is that an incapable contractor will submit an unrealistically low bid and then subsequently have to be

removed from the contract. In some cases, prequalifying bidders may not be practical; for example, when a project requires new technology or addresses a new problem, potential bidders with a proven track record may not be available.

**Providing Third-Party
Review and/or Technical
Assistance**

Various control options exist to ensure that the City's managed competition process gives in-house and outside bidders equal consideration. These options vary in the amount of oversight they provide over the process and consequently, in the degree of assurance the city will have that managed-competition decisions incorporate complete and relevant information and appropriate comparisons between service alternatives. The control options which we describe below represent only three points along the full spectrum of potential controls.

First, the City could follow the lead of some other cities in designating a third party⁴ to review all managed competition decisions. These reviews generally compare bids against pre-established criteria and ensure that the bids include all relevant costs. City of Seattle departments that could perform third-party review include the Business Evaluation Team of the Office of Management and Planning, the Department of Administrative Services, and/or the Office of the City Auditor.

Second, the City could require third-party review only in selected cases--for example, when projects involve a high level of expenditures or have potentially large impacts on the work force.

Third, the City could make third-party review voluntary and designate a third party to respond to department requests for either formal review or more limited technical assistance. This party could also act as a citywide focal point for gathering and disseminating information about successful managed-competition initiatives.

⁴Independent of the department undergoing review.

**Writing Comprehensive
Contract Specifications
With Performance
Measures**

Officials we contacted from both the City of Seattle and other cities emphasized the importance of comprehensive contract specifications, including specific measures of performance. The city's ability to hold both public and private sector bidders accountable for performance quality is only as good as the original contract specifications. Contract proposals which clearly describe the work to be performed also help ensure that all bids are comparable and that one bid does not envision a broader scope of services than another. At the same time, the proposed scope of work should be broad enough to encourage both in-house and outside bidders to propose innovative methods of providing the service. In addition, contracts should include specific mechanisms to correct poor performance without having to break the contract. Such mechanisms could include financial penalties tied to specific measures of performance or requirements for specific corrective actions.

**Monitoring Service
Quality**

Managed competition may require greater monitoring efforts than would occur under traditional in-house delivery of services. The City's experience with a pilot program a few years ago suggests that both public employees and contractors are likely to press for greater oversight. Contract monitoring helps ensure that neither outside contractors nor in-house providers skimp on quality to achieve low costs. Comprehensive contract monitoring systems include requiring contractor reports on a regular basis, conducting on-site inspections, tracking and analyzing consumer complaints, conducting consumer surveys, and measuring the results of these efforts against clear and specific performance indicators.

**Controlling Cost
Increases**

Regardless of whether the City decides to contract out a service or keep it in-house, the City must still control the pressures for cost increases. When contracting out, the City will need to hold firm against requests for contract amendments to adjust costs. Writing specific remedies for non-performance or poor performance, including liquidated damages, into the contract, also will help protect the City

against contractor claims that it is not possible to provide the desired quality at the contract cost. Cities are particularly vulnerable to cost increases if a private sector company is able to obtain a monopoly over a particular service industry. City officials with whom we spoke told us that they try to reduce this risk by: a) avoiding contracting out in specific instances where the risk is greatest; b) creating competitive conditions by dividing the city into service areas and awarding contracts in these service areas to different parties; or c) writing longer term contracts that specify the basis upon which price changes may occur in future contract renewals--for example, tied to the Consumer Price Index with a cap or to another more specific index.

Retaining the service in-house also carries the risk of cost increases. An official of one city told us that their City Auditor monitors the cost of in-house services for departments which win a competitive bid process. If a department is spending more than the cost of the next lowest bid, the City Auditor gives the department a specified time period in which to control its costs; otherwise the department must put the service out to bid again. A second official stated that her city is still struggling with what to do if the in-house provider exceeds its estimated cost but is still under the next lowest bid. This official was concerned that, if the city does not hold in-house providers to the same standards as the private sector, the managed-competition process could lose credibility.

Other Key Factors Affect The Success Of Managed Competition

Non-financial and labor-relations concerns will require special attention in managed competition. The City will need to provide citywide guidance on how managers make trade-offs between lower costs and non-financial policy priorities. The City will also need to address concerns of the labor force to ensure that the gains from managed competition are not lost in deteriorating labor relations.

***Non-financial Factors
Need To Be
Considered***

Managed competition often requires cities to make difficult trade-offs between lower costs and key non-financial policy priorities. First, decision makers must consider the impact of contracting out on flexibility. For example, government employees can make more immediate changes in service delivery in response to citizen complaints; with a contractor, the City would generally have to negotiate these changes. Second, contractors may not provide the same emphasis on such social goals as affirmative action, livable wages, and health care benefits as the City does with its own personnel. Finally, the City would have to accept the temporary disruptions of service inherent in any change in service delivery.

States and localities have adopted a number of strategies to address these concerns, including:

- requiring the cost savings from contracting out to exceed the in-house costs by 10 percent⁵;
- including the non-financial factors in the final decision-making process through a rating scheme which scores each bid relative to how it performs against each variable (a process similar to the one the City currently uses to evaluate consultant contracts);
- writing into the contract specifications the non-financial criteria so that only bidders who comply with these criteria would be eligible to compete for the contract.

To help ensure reasonable consistency across departments and services, the City may wish to develop guidelines for managers to follow when considering non-financial factors. However, because the type and magnitude of these non-financial considerations varies depending on the particular service under consideration, as do the remedies available to address these factors, we recommend that any guidelines be very general and allow for the exercise of sound professional judgment.

⁵ Ten percent is a general rule of thumb used by the federal government and some states and localities.

***Labor-Management
Cooperation Desirable***

According to city officials in Phoenix and Cincinnati, if managed competition is to provide all the benefits of which it is capable, the City should be aware of how the process affects employee morale and avoid labor-management conflict. Otherwise the danger exists that the process will meet with resistance at every stage and the City will lose the improvements in service which employee support and innovation could provide.

To avoid the resistance that comes when employees fear losing their jobs, some cities have adopted “no lay-off” policies, and have chosen instead to reduce their work force through attrition, early retirement, and enhanced outplacement services. Further, once some cities decide to contract out a service previously performed in-house, they immediately institute citywide hiring freezes for jobs in the affected skill areas to allow for absorbing displaced employees into other city jobs. They may also offer to retrain displaced employees. Finally, some cities make a special effort to leave adequate lead time between the decision to contract out and the implementation of the contract; this extra lead time allows managers and employees more time to plan for the transition and thus helps minimize the impact on the work force. In some instances, cities are also required to bargain with employee labor unions regarding potential impacts on the labor force.

When labor and management work together in developing in-house bids under managed competition, the process can stimulate employees to find new, more efficient, and less costly ways to provide public services. To support these innovations, managers must be open to removing bureaucratic barriers. To achieve other efficiencies, labor may also need to be willing to change some of the ways they have performed work in the past.

In Seattle, the Labor-Management Task Force on Service Efficiencies has already taken steps in the right direction. Working together, a labor-management subcommittee of this task force has developed a cost-comparison methodology which allows the City to compare and evaluate alternative ways of providing City services. Other task force subcommittees have identified further ways to create service efficiencies, including allowing management the flexibility to work employees across union jurisdiction lines, if necessary.

Recommendations

City departments could be using managed competition more extensively. Of the 67 services we identified as good candidates for managed competition, departments were only reviewing in-house to outside costs for 23 services. We recommend that the Mayor, departments and the City Council seek ways to apply managed competition to more City services so as to increase the efficiency of city government.

The city officials with whom we spoke, representing municipalities with considerable experience in managed competition, all advocated evaluating each managed competition decision on its own merits and emphasized the importance of incorporating individual circumstances into the decision-making process. However, decisions about whether to retain a service in-house or contract it out should be reached only after following established procedures for ensuring that all the relevant financial and non-financial considerations have been taken into account. In addition, once a project has been awarded to either in-house or outside bidders, adequate controls should be in place to minimize the city's risk of encountering unanticipated cost increases or poor service quality. As City of Seattle departments move in the direction of using managed competition, the City Council and Mayor may want to consider providing the following forms of citywide policy guidance:

- guidelines for managers to follow when initially screening services as likely candidates for managed competition;
- a standardized cost comparison methodology, including recommendations on when to obtain formal bids;
- the appropriate level of third party review over managed-competition decisions and the third party/parties responsible for providing the independent review or technical assistance;
- appropriate contract language for managing risk, including specific performance measures and mechanisms to correct poor performance;

-
- procedures for ensuring early legal review of any managed competition project;
 - general guidelines for incorporating non-financial considerations, such as affirmative action or employee benefits, into managed-competition decisions; and
 - relevant labor policies, including transition plans for potentially displaced employees.

Matters For Further Consideration

In the future, as City departments move more deeply into managed competition, the City Council and/or Mayor may wish to request a more extensive review of the departments' managed competition efforts to determine (1) to what extent departments are screening all their services for possible application of the managed-competition model, (2) how well departments are making managed-competition decisions; and (3) what cost savings and other benefits departments are actually obtaining from their managed-competition projects.

**Addendum A : Method of Service Provision and Status of Cost Comparisons for
Selected City Servicesⁱ**

DEPARTMENT AND SERVICE PROVIDED	SERVICE PROVIDED IN-HOUSE	SERVICE CONTRACTED OUT	COST COMPARISON PERFORMED
CITY LIGHT			
Billing	X		YES
Collections	X	X	NO
Meter reading	X		YES
Skagit tours	X		NO
ADMINISTRATIVE SERVICES			
Architects	X	X	YES
Asbestos removal		X	NO
Building Management Services	X	X	YES
Custodial services	X	X	YES
Fleet maintenance	X	X	YES
Mail messenger	X		YES
Painting	X		YES
Parking lot operations	X		YES
Pest Control		X	NO
Plumbing	X	X	YES
Printing	X	X	YES
Security guards		X	NO
Space planners	X	X	YES
Window cleaning	X	X	NO
FINANCE			
Animal control/shelters	X		NO
Delinquent tax collection	X	X	NO
Payroll		X (in 1995)	YES
Preparation of financial documents	X		NO
Risk management	X		NO
Tax bill processing	X		NO

DEPARTMENT AND SERVICE PROVIDED	SERVICE PROVIDED IN-HOUSE	SERVICE CONTRACTED OUT	COST COMPARISON PERFORMED
LEGISLATIVE			
City Clerk's Office - Civil Service Elections	X		YES
City Auditor's Office	X		NO
LIBRARY			
Operations	X	X	NO ⁱⁱ
Security	X	X	NO
MUNICIPAL COURT			
Collections		X	NO
Parking ticket processing	X		NO
PARKS			
Landscape maintenance	X		NO
Park maintenance	X		NO
Zoo management	X		NO, but rates are based on market prices
Aquarium management	X		NO, but rates are based on market prices
Golf course management - operations		X	YES
Golf course management - maintenance	X		YES
PERSONNEL			
Labor relations	X		NO
Executive searches	X	X	NO
Training	X	X	NO
POLICE			
Security	X		NO
Parking enforcement	X		NO
Medical exams		X	NO
Victim assistance	X		NO
Data processing	X		NO

DEPARTMENT AND SERVICE PROVIDED	SERVICE PROVIDED IN-HOUSE	SERVICE CONTRACTED OUT	COST COMPARISON PERFORMED
SEATTLE CENTER			
Parking lot operations	X		NO, but rates are based on market prices
SED ⁱⁱⁱ - TRANSPORTATION			
Street lighting maintenance	X		NO
Street maintenance	X	X	NO
Street sweeping	X		NO
Traffic signal installation	X	X	YES
Traffic signal maintenance	X		NO
SED - DRAINAGE & WASTEWATER UTILITY			
Sanitary sewer maintenance	X		YES
Major sewer repair work		X (in 1995)	YES
SED - SOLID WASTE UTILITY			
Billing	X		YES
Collections		X	NO
Recycling processing		X	NO
Recycling collection		X	NO
Solid waste collection		X	NO
Solid waste disposal		X	YES
Transfer stations	X		NO
Yard waste collections		X	NO
Yard waste processing		X	NO
Litter collection		X	YES
WATER			
Collections	X		NO ^{iv}
Meter reading	X		NO
Water billing	X		NO
Water maintenance	X		NO
Water quality	X		YES

ⁱ We reviewed 67 services in 12 departments. All the services had been identified by either the National League of Cities, the International City/County Management Association, or the Washington State Municipal Research Services Center as services often contracted out or as good candidates for managed competition. We interviewed department officials to determine how the City of Seattle provides these services and whether they conduct cost comparisons between alternate modes of service provision.

ⁱⁱ Some comparisons are made to industry data.

ⁱⁱⁱ Seattle Engineering Department.

^{iv} The Water Department plans to conduct cost comparisons for collections, meter reading, water billing and water maintenance in two years, after they have made their own operations as efficient as possible.